COST SAVINGS: PAYDOWN OF DEBT

PRESENTED BY:

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Approval Requested
OBJECTIVE & TAKEAWAY

- SHARE COST SAVINGS IMPACT OF DEBT PAYDOWN
- OBTAIN APPROVAL
AGENDA

• BACKGROUND
• TARGETED DEBT
• DEBT SERVICE PROFILE
• METRICS RESULTS
• REQUEST APPROVAL
PAYDOWN OF DEBT

• We proactively look for opportunities to paydown debt to provide savings & improve our financial position

• Last paydown of debt occurred in January 2019 - ~$103M ($77.6M in Bonds, $25.2M Flex Rate Revolving Note)
PAYDOWN OF DEBT
WHY CONSIDER NOW?

- Opportunity to effectively use cash to paydown our debt portfolio:
  - Provides ~ **$6.8M in interest savings (FY 21-25)**; FY20 increased expense through escrow account
  - Shaves Debt Service peak
  - Benefits financial metrics in targeted years

We have the opportunity to provide additional savings for our customers & improve future financial metrics!
# PAYDOWN OF DEBT

## TARGETED DEBT

### PROPOSED PAYDOWNS

<table>
<thead>
<tr>
<th>Impacted FY</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 Refunding Bonds</td>
<td>---</td>
<td>---</td>
<td>$16.0</td>
<td>$39.0</td>
<td>$40.0</td>
<td>$13.0</td>
<td>$108.0</td>
</tr>
</tbody>
</table>

We are proposing to pay down ~$108M in principal maturing thru FY25. Including interest payments, the total required to paydown the debt is ~$125M. Execution is planned to occur in January 2020\(^{(2)}\).

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(1) $s in millions.
(2) Contingent upon Board approval. Does not require City Council approval.
$129.4M impact to Debt Service

In peak years, paydown helps to smooth debt service
## PROJECTED FINANCIAL RESULTS

<table>
<thead>
<tr>
<th>Metric</th>
<th>Threshold</th>
<th>FY20 Paydown Impact</th>
<th>FY20 Metrics after Paydown&lt;sup&gt;(1)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Debt Service Coverage (ADSC)</td>
<td>&gt; 1.50x</td>
<td>Modestly Lower, Yet Still Very Healthy</td>
<td>1.89x</td>
</tr>
<tr>
<td>Days Cash on Hand (DCOH)</td>
<td>&gt; 150 days</td>
<td>Lower, Yet Still Healthy</td>
<td>205</td>
</tr>
<tr>
<td>Debt-to-Capitalization</td>
<td>Long range &lt;= 60%</td>
<td>Directionally Correct &amp; Lower</td>
<td>61.1%</td>
</tr>
</tbody>
</table>

This strategy will provide us ~$6.8M in interest savings over the next 5 years & can help improve ADSC metrics in the years we target paydown.

<sup>(1)</sup> Results are based on October forecast & include impact of paydown of debt.

<sup>(2)</sup> Savings are based upon paying down ~$108 million of principal.
Approve a resolution that gives authority to the President & CEO or the CFO & Treasurer to execute the paydown/defeasance of bonds & related documents:

• Up to $125M
• At the Sr. Lien or Jr. Lien level
• Until January 31, 2020
Thank You
• CPS Energy identifies specific bonds to be paid down.

• With cash, we bid out & fund an escrow that will invest in US Treasuries / Agencies, sufficient to pay for principal & interest to the maturity date.

• The escrows, once funded & executed, are irrevocable in nature & the cash cannot be used for any other purpose.

• Bond counsel will provide a defeasance opinion as part of legal documentation, at which point the bonds will be removed from CPS Energy’s obligations.